

**EMMETSBURG MUNICIPAL UTILITIES  
EMMETSBURG, IOWA  
COMPONENT UNIT FINANCIAL STATEMENTS  
JUNE 30, 2013**

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**EMMETSBURG MUNICIPAL UTILITIES**

**OFFICIALS**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
Paul Saxton	Board Member	Dec. 31, 2015
Deb Davis	Board Member	Dec. 31, 2016
Nick Steinkamp	Board Member	Dec. 31, 2018
Rick Brennan	Board Member	Dec. 31, 2014
Laurie Schneider	Board Member	Dec. 31, 2017
John Bird	City Administrator/Superintendent	
John D. Brown	Attorney	

# Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA  
Patrick J. Parrott, CPA  
www.bpacpa.com

## INDEPENDENT AUDITORS' REPORT

313 Main, P.O. Box 359  
Emmetsburg, Iowa 50536  
Phone: 712-852-3347  
Fax: 712-852-3348

To the Board of Trustees  
Emmetsburg Municipal Utilities  
Emmetsburg, Iowa

### Report on the Financial Statements

We have audited the accompanying combining statement of net position of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2013, and the related combining statement of revenues, expenses and changes in net position, and combining statement of cash flows for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Basis for Qualified Opinion

The Utilities' capital assets policies, as described in Note 1D, do not conform to accounting principles generally accepted in the United States of America. In addition, as described in Note 8 to the financial statements, the Utilities' did not implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions*. The amount by which these departures would affect the component unit financial statements referred to above has not been determined.

### Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2013, and the changes in financial position and cash flows for the

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year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Emphasis of Matters**

As discussed in Note 1, the financial statements present only the Municipal Utilities' component unit and do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa, as of June 30, 2013 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### **Other Matters**

##### Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual on pages 5-10 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2014, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control over financial reporting and compliance.

*Burdorf, Parnott And Associates, P.C.*

Emmetsburg, Iowa  
January 17, 2014

## Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2013. Please read it in conjunction with the Utilities' financial statements, which follow.

### Financial Highlights

- The Utilities' net position increased \$23,751 or .10%.
- The Utilities' change in net position as a percentage of total ending assets was .14%.
- The Utilities' total revenues were \$3,093,643 in 2013 compared to \$2,902,269 in 2012. This \$191,374 increase in revenues resulted primarily to an increase in Gas fund natural gas billings, due to normal winter conditions.
- During the year ended June 30, 2013, the Utilities had total expenses, excluding depreciation, of \$2,417,464 compared to \$2,147,761 for the year ended June 30, 2012. The increase in expenses of \$269,703 is primarily related to a \$175,865 increase in the cost of material, supplies and maintenance, which included natural gas purchased.

### Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position (on pages 10 and 11) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

### Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Position and Combining Statement of Revenues, Expenses and Changes in Net Position report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net position and changes in it. You can think of the Utilities' net position (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

## Reporting the Most Significant Funds Maintained by the Utilities

### Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds, not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

### The Funds Maintained by the Utilities as a Whole

For the years ended June 30, 2013 and 2012, net assets changed as follows:

#### Summary of Operations and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 3,058,436	2,888,130
Operating expenses	<u>2,839,054</u>	<u>2,514,467</u>
Operating income	219,382	373,663
Non-operating revenues (expenses)	(98,057)	(157,044)
Capital contributions	-	-
Transfers to Primary Government	<u>(97,574)</u>	<u>(95,439)</u>
Net increase (decrease) in net assets	<u>\$ 23,751</u>	<u>121,180</u>

#### Summary of Net Assets

	<u>2013</u>	<u>2012</u>
Assets:		
Current and noncurrent assets	\$ 6,074,087	5,794,712
Capital assets	<u>10,650,709</u>	<u>11,057,711</u>
Total assets	<u>\$ 16,724,796</u>	<u>16,852,423</u>
Liabilities:		
Current liabilities	\$ 813,865	734,003
Noncurrent liabilities	<u>3,366,415</u>	<u>3,597,645</u>
Total liabilities	4,180,280	4,331,648
Net assets:		
Invested in capital assets (net of debt)	7,057,753	7,244,059
Unreserved	<u>5,486,773</u>	<u>5,276,716</u>
Total liabilities and net assets	<u>\$ 16,724,796</u>	<u>16,852,423</u>

**Summary of Revenues**

	<u>2013</u>	<u>2012</u>
Operating:		
Residential sales	\$ 1,212,990	1,136,455
Commercial sales	982,288	935,768
Public authority sales	234,742	207,353
Customer fees	529,096	509,917
Interfund services provided	37,524	36,132
Penalties	7,342	5,885
Other	54,454	56,620
Total operating	<u>3,058,436</u>	<u>2,888,130</u>
Non-operating revenues:		
Interest income	10,473	14,139
Proceeds from risk under guarantee	24,734	-
Total revenues	<u>\$ 3,093,643</u>	<u>2,902,269</u>

For the funds maintained by the Utilities, total revenues for June 30, 2013 increased by \$191,374 from total revenues for the year ended June 30, 2012. The increase in revenue was primarily due to an in Gas fund natural gas billings, due to a return of normal winter heating conditions.

**Summary of Expenses**

	<u>2013</u>	<u>2012</u>
Operating:		
Personal services	\$ 441,923	403,178
Contractual	325,813	251,871
Materials, supplies and maintenance	1,328,392	1,152,527
Utilities	101,857	99,262
Depreciation	572,854	537,889
Uncollectible accounts	1,317	3,338
Interfund services provided	66,898	66,402
Total operating	<u>2,839,054</u>	<u>2,514,467</u>
Interest expense	130,764	140,183
Donations	2,500	31,000
Total expense	<u>\$ 2,972,318</u>	<u>2,685,650</u>

The total expenses increased by \$286,668 from the prior year, due primarily to the \$175,865 increase in the cost of material, supplies and maintenance, which included increased natural gas purchased.

## Capital Asset and Debt Administration

### Capital Assets

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
<b>Gas Department:</b>				
Land	\$ 1,039	-	-	1,039
Structures & plant	340,715	1,382	-	342,097
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	915,778	24,432	339,280	600,930
Total asset costs	2,393,141	25,814	339,280	2,079,675
Less accumulated depreciation	(1,768,376)	(60,922)	339,280	(1,490,018)
Gas Department assets, net	<u>\$ 624,765</u>	<u>(35,108)</u>	<u>-</u>	<u>589,657</u>
<b>Water Department:</b>				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,976,173	1,381	8,666	4,968,888
Distribution system	1,859,086	-	2,800	1,856,286
Equipment, meters & mains	689,167	42,869	76,473	655,563
Construction in progress	-	11,183	-	11,183
Total asset costs	7,591,493	55,433	87,939	7,558,987
Less accumulated depreciation	(2,892,296)	(246,848)	87,939	(3,051,205)
Water Department assets, net	<u>\$ 4,699,197</u>	<u>(191,415)</u>	<u>-</u>	<u>4,507,782</u>
<b>Sanitation Department:</b>				
Land	\$ 84,542	-	-	84,542
Structures & plant	6,085,494	1,380	39	6,086,835
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	650,463	83,225	257,567	476,121
Construction in progress	-	-	-	-
Total asset costs	9,689,714	84,605	257,606	9,516,713
Less accumulated depreciation	(3,955,965)	(265,084)	257,606	(3,963,443)
Sanitation Department assets, net	<u>\$ 5,733,749</u>	<u>(180,479)</u>	<u>-</u>	<u>5,553,270</u>

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
<b>Gas Department:</b>				
Land	\$ 1,039	-	-	1,039
Structures & plant	340,055	660	-	340,715
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	891,786	23,992	-	915,778
Total asset costs	2,368,489	24,652	-	2,393,141
Less accumulated depreciation	<u>(1,714,375)</u>	<u>(54,001)</u>	-	<u>(1,768,376)</u>
Gas Department assets, net	<u>\$ 654,114</u>	<u>(29,349)</u>	-	<u>624,765</u>
<b>Water Department:</b>				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,638,512	337,661	-	4,976,173
Distribution system	1,839,155	19,931	-	1,859,086
Equipment, meters & mains	655,167	35,775	1,775	689,167
Construction in progress	75,078	-	75,078	-
Total asset costs	7,274,979	393,367	76,853	7,591,493
Less accumulated depreciation	<u>(2,655,375)</u>	<u>(237,425)</u>	504	<u>(2,892,296)</u>
Water Department assets, net	<u>\$ 4,619,604</u>	<u>155,942</u>	<u>76,349</u>	<u>4,699,197</u>
<b>Sanitation Department:</b>				
Land	\$ 84,542	-	-	84,542
Structures & plant	5,544,543	540,951	-	6,085,494
Distribution system	2,869,215	-	-	2,869,215
Equipment, meters & mains	609,789	42,449	1,775	650,463
Construction in progress	50,682	-	50,682	-
Total asset costs	9,158,771	583,400	52,457	9,689,714
Less accumulated depreciation	<u>(3,710,005)</u>	<u>(246,463)</u>	503	<u>(3,955,965)</u>
Sanitation Department assets, net	<u>\$ 5,448,766</u>	<u>336,937</u>	<u>51,954</u>	<u>5,733,749</u>

Depreciation expense for each department is presented on page 11.

#### Debt

Net debt decreased during the year ended June 30, 2013 by \$220,696, due to scheduled debt service payments.

#### Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2013 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. Also, fluctuations in the natural gas market make it extremely difficult to budget gas costs and gas revenues. The 2013 budget failed to anticipate decreases in the natural gas market and billings, due to another mild winter. The Utilities' fiscal 2014 budget has decreased from fiscal 2013, due primarily to estimates related to natural gas markets and billings.

### **Contacting the Utilities Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

*John Bird*

City Administrator/Superintendent

Emmetsburg Municipal Utilities  
Component Unit of the City of Emmetsburg, Iowa  
Combining Statement of Net Position  
Business-Type Activities  
June 30, 2013

<b>Assets</b>	<b>Gas Fund</b>	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Total</b>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 4,550,625	786,490	255,621	5,592,736
Accounts receivable	7,145	91,529	68,945	167,619
Current portion of notes receivable	5,973	-	-	5,973
Other receivables	921	2,006	-	2,927
Accrued billing	3,686	7,296	6,943	17,925
Interfund receivable	17,551	3,108	43,536	64,195
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	1,322	1,542	1,542	4,406
Prepaid expenses	7,251	18,563	22,148	47,962
<b>Total current assets</b>	<b>4,594,474</b>	<b>910,534</b>	<b>398,735</b>	<b>5,903,743</b>
<b>Noncurrent assets:</b>				
Restricted assets - cash and cash equivalents	62,337	13,675	-	76,012
Notes receivable	46,000	-	-	46,000
Due from primary government - Urban Renewal Tax Increment Revenue Bond	4,169	4,864	4,864	13,897
Loan fees (net of \$15,965 amortization)	-	21,125	13,310	34,435
<b>Total noncurrent assets</b>	<b>112,506</b>	<b>39,664</b>	<b>18,174</b>	<b>170,344</b>
<b>Capital assets:</b>				
Land	1,039	67,067	84,542	152,648
Structures and plant	342,097	4,968,888	6,086,835	11,397,820
Distribution system	1,135,609	1,856,286	2,869,215	5,861,110
Equipment, meters and mains	600,930	655,563	476,121	1,732,614
Construction in progress	-	11,183	-	11,183
	2,079,675	7,558,987	9,516,713	19,155,375
Less: Accumulated depreciation	(1,490,018)	(3,051,205)	(3,963,443)	(8,504,666)
<b>Net capital assets</b>	<b>589,657</b>	<b>4,507,782</b>	<b>5,553,270</b>	<b>10,650,709</b>
 <b>Total assets</b>	 <b>\$ 5,296,637</b>	 <b>5,457,980</b>	 <b>5,970,179</b>	 <b>16,724,796</b>

See notes to the financial statements.

<b>Liabilities and Net Position</b>	<b>Gas Fund</b>	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Total</b>
<b>Current liabilities:</b>				
Accounts payable	\$ 56,606	38,464	20,023	115,093
Other liabilities payable	4,433	-	-	4,433
Current portion of long-term debt	6,541	126,000	94,000	226,541
Accrued vacation pay	3,281	6,490	2,819	12,590
Accrued interest payable	9,325	4,915	3,335	17,575
Interfund payable	3,108	51,773	9,314	64,195
Customer deposits	62,337	13,675	-	76,012
Due to primary government	54,094	121,661	121,661	297,416
<b>Total current liabilities</b>	<u>199,725</u>	<u>362,978</u>	<u>251,152</u>	<u>813,855</u>
<b>Long-term debt (net of current portion above)</b>	<u>286,415</u>	<u>1,840,000</u>	<u>1,240,000</u>	<u>3,366,415</u>
<b>Total liabilities</b>	<u>486,140</u>	<u>2,202,978</u>	<u>1,491,152</u>	<u>4,180,270</u>
<b>Net Position:</b>				
Net Investment in capital assets	296,701	2,541,782	4,219,270	7,057,753
Unrestricted	4,513,796	713,220	259,757	5,486,773
<b>Total net position</b>	<u>4,810,497</u>	<u>3,255,002</u>	<u>4,479,027</u>	<u>12,544,526</u>
 <b>Total liabilities and net position</b>	 <u>\$ 5,296,637</u>	 <u>5,457,980</u>	 <u>5,970,179</u>	 <u>16,724,796</u>

**Emmetsburg Municipal Utilities**  
**Component Unit of the City of Emmetsburg, Iowa**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Net Position**  
**Business-Type Activities**  
**Year Ended June 30, 2013**

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>Operating revenues:</b>				
Residential sales	\$ 784,106	221,719	207,165	1,212,990
Commercial sales	606,864	185,111	190,313	982,288
Public authority sales	178,780	32,275	23,687	234,742
Customer fees	136,869	176,031	216,196	529,096
Interfund services provided	33,730	3,001	793	37,524
Penalties	7,342	-	-	7,342
Other	22,287	18,926	13,241	54,454
<b>Total operating revenues</b>	<u>1,769,978</u>	<u>637,063</u>	<u>651,395</u>	<u>3,058,436</u>
<b>Operating expenses:</b>				
Personal services	138,770	142,208	160,945	441,923
Contractual	104,638	88,663	132,512	325,813
Materials, supplies and maintenance	1,097,282	146,800	84,310	1,328,392
Utilities	7,035	35,379	59,443	101,857
Depreciation	60,922	246,848	265,084	572,854
Uncollectible accounts	285	586	446	1,317
Interfund services used	38,066	14,416	14,416	66,898
<b>Total operating expenses</b>	<u>1,446,998</u>	<u>674,900</u>	<u>717,156</u>	<u>2,839,054</u>
<b>Operating income</b>	<u>322,980</u>	<u>(37,837)</u>	<u>(65,761)</u>	<u>219,382</u>
<b>Non-operating revenues and (expenses):</b>				
Interest income	7,912	1,817	744	10,473
Interest expense	(15,098)	(69,180)	(46,486)	(130,764)
Donations	(2,500)	-	-	(2,500)
Proceeds from risk under guarantee	24,734	-	-	24,734
<b>Total non-operating revenues (expenses)</b>	<u>15,048</u>	<u>(67,363)</u>	<u>(45,742)</u>	<u>(98,057)</u>
<b>Income (loss) before capital contributions and transfers</b>	<u>338,028</u>	<u>(105,200)</u>	<u>(111,503)</u>	<u>121,325</u>
<b>Transfers from ( to):</b>				
Utilities	(65,000)	-	65,000	-
Primary Government	(76,980)	(10,297)	(10,297)	(97,574)
<b>Change in net position</b>	<u>196,048</u>	<u>(115,497)</u>	<u>(56,800)</u>	<u>23,751</u>
<b>Net position at beginning of year</b>	<u>4,614,449</u>	<u>3,370,499</u>	<u>4,535,827</u>	<u>12,520,775</u>
<b>Net position at end of year</b>	<u>\$ 4,810,497</u>	<u>3,255,002</u>	<u>4,479,027</u>	<u>12,544,526</u>

See notes to the financial statements.

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**Emmetsburg Municipal Utilities**  
**Component Unit of the City of Emmetsburg, Iowa**  
**Combining Statement of Cash Flows**  
**Business-Type Activities**  
**Year Ended June 30, 2013**

	<b>Gas Fund</b>	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 1,696,637	576,671	622,925	2,896,233
Cash payments to suppliers for goods and services	(1,179,460)	(241,754)	(260,728)	(1,681,942)
Cash payments to employees for services	(138,609)	(141,168)	(160,012)	(439,789)
Cash received for interfund services provided	33,730	3,001	793	37,524
Cash paid for interfund services used	(38,065)	(14,416)	(14,417)	(66,898)
Other income	22,287	18,926	13,241	54,454
<b>Net cash provided by operating activities</b>	<u>396,520</u>	<u>201,260</u>	<u>201,802</u>	<u>799,582</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash from or to primary government funds	17,154	(15,950)	(15,822)	(14,618)
Collection of loan receivable - primary government	1,266	1,478	1,478	4,222
Donations	(2,500)	-	-	(2,500)
Proceeds from risk under guarantee	24,734	-	-	24,734
Transfers from or to Utilities	(65,000)	-	65,000	-
Transfers from or to primary government funds	(76,980)	(10,297)	(10,297)	(97,574)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(101,326)</u>	<u>(24,769)</u>	<u>40,359</u>	<u>(85,736)</u>
<b>Cash flows from capital and related financing activities:</b>				
Loan payments	(10,696)	(122,000)	(88,000)	(220,696)
Interest and loan fees paid	(15,435)	(67,860)	(45,811)	(129,106)
Acquisition and construction of capital assets	(25,814)	(55,433)	(84,605)	(165,852)
<b>Net cash provided (used) for capital and related financing activities</b>	<u>(51,945)</u>	<u>(245,293)</u>	<u>(218,416)</u>	<u>(515,654)</u>
<b>Cash flows from investing activities:</b>				
Interest on cash investments and notes receivable	7,912	1,817	744	10,473
Payments for notes receivable for others	(50,000)	-	-	(50,000)
Collection of notes receivable from others	7,237	-	-	7,237
<b>Net cash provided (used) by investing activities</b>	<u>(34,851)</u>	<u>1,817</u>	<u>744</u>	<u>(32,290)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	208,398	(66,985)	24,489	165,902
<b>Cash and cash equivalents, beginning of year</b>	<u>4,404,564</u>	<u>867,150</u>	<u>231,132</u>	<u>5,502,846</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 4,612,962</u>	<u>800,165</u>	<u>255,621</u>	<u>5,668,748</u>
<b>Reconciliation:</b>				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 4,550,625	786,490	255,621	5,592,736
Restricted	62,337	13,675	-	76,012
	<u>\$ 4,612,962</u>	<u>800,165</u>	<u>255,621</u>	<u>5,668,748</u>

See notes to the financial statements.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 322,980	(37,837)	(65,761)	219,382
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	60,922	246,848	265,084	572,854
(Increase) decrease in operating assets:				
Accounts and other receivables	(20,511)	(37,835)	(14,540)	(72,886)
Accrued billing	785	(319)	549	1,015
Prepaid expenses	(1,246)	(1,927)	(2,676)	(5,849)
Increase (decrease) in operating liabilities:				
Accounts payable	30,959	31,015	18,213	80,187
Other liabilities	(218)	-	-	(218)
Accrued vacation pay	161	1,040	933	2,134
Customer deposits	2,688	275	-	2,963
<b>Net cash provided by operating activities</b>	<u>\$ 396,520</u>	<u>201,260</u>	<u>201,802</u>	<u>799,582</u>

**Emmetsburg Municipal Utilities**  
**Component Unit of the City of Emmetsburg, Iowa**  
**Notes to the Financial Statements**

**1. Summary of Significant Accounting Policies**

**Financial Reporting Entity**

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2013, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Accounting Policies**

The Utilities apply generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

**A. Fund Accounting**

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

**Proprietary Funds**

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**B. Cash and Cash Equivalents**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2013 was \$5,668,748, and the bank balance was \$5,682,740. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts.

**C. Accounts and Notes Receivable**

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2013. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

**D. Capital Assets and Long-Term Liabilities**

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Position. The Utilities' reported net position is segregated into Investment in capital assets (net of related debt) and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Position. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

**E. Designated funds**

Designated funds include cash set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

**F. Pension and Retirement Benefits**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Utilities is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$31,604, \$26,878 and \$22,540, respectively, equal to the required contributions for the year.

**G. Vacation and Sick Pay**

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

**2. Notes Receivable**

On October 15, 2008, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$37,500. The note is non-interest bearing and is receivable in monthly installments of \$658, with a maturity date of October 15, 2013. The principal balance receivable totaled \$1,973 at June 30, 2013.

On October 18, 2012, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$50,000, which includes a \$20,000 low-interest loan component and a \$30,000 forgivable loan component. Both loans required the borrower to maintain a minimum of 20 full-time equivalent (FTE) jobs.

- The low-interest loan bears interest at the rate of 1.50% per annum and is receivable in quarterly principal installments of \$1,000, with a maturity date of December 31, 2017.
- The forgivable loan balance is forgivable over the five year term of the note. At the end of each 12 month period and upon proof of providing 20 FTE jobs, \$6,000 in principal will be forgiven. If during any individual year during the five year note, the number of FTE employees drops below 20, \$6,000 of the forgivable loan amount will be added to the low-interest loan bearing interest at the rate of 1.50% per annum, with future loan payments adjusted accordingly.

The principal balance receivable for the two loans totaled \$50,000 at June 30, 2013.

**3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable**

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum, which was modified effective June 1, 2013 to 2.50% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017. The principal balance receivable totaled \$5,491 at June 30, 2013.

**4. Designated funds**

The composition of Board designated funds included in cash and cash equivalents, at June 30, 2013 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 2,503,754	403,274	205,222
Community Center	200,000	-	-
Downtown Revitalization	125,000	-	-
Medical Reimbursement	39,733	4,138	4,137
Industrial Development	283,231	324,482	18,250
	<u>\$ 3,151,718</u>	<u>731,894</u>	<u>227,609</u>

**5. Restricted Assets – Cash and Cash Equivalents**

Restricted assets are comprised of cash in bank that can be used only to repay customer deposits.

**6. Capital Assets**

Capital assets activity was as follows:

	Balance <u>7/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2013</u>
Land	\$ 152,648	-	-	152,648
Structures & plant	11,402,382	4,143	8,705	11,397,820
Distribution system	5,863,910	-	2,800	5,861,110
Equipment, meters & mains	2,255,408	150,526	673,320	1,732,614
Construction in progress	-	11,183	-	11,183
Total	<u>19,674,348</u>	<u>165,852</u>	<u>684,825</u>	<u>19,155,375</u>
Less Accumulated depreciation and amortization				
Structures & plant	4,004,842	326,293	8,705	4,322,430
Distribution system	2,776,720	150,203	2,800	2,924,123
Equipment, meters & mains	1,835,075	96,358	673,320	1,258,113
Total	<u>\$ 8,616,637</u>	<u>572,854</u>	<u>684,825</u>	<u>8,504,666</u>

Construction in progress, totaling \$11,183 at June 30, 2013, consisted of costs accumulated to date for water main additions related to the Madison street project, which will be depreciated upon completion and being placed in service during fiscal 2014 at an estimated completion cost of \$93,000.

**7. Long-Term Debt**

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond, Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$126,000) to June 1, 2026, and interest at 3.00%. At June 30, 2013, the loan balance totaled \$1,966,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond, Series 2005 MC60R due in annual payments of \$20,000 – 40,000 (currently \$30,000) to June 1, 2025, and interest at 3.00%. At June 30, 2013, the loan balance totaled \$405,000.

\$202,000 Sludge Digestion Improvement Bond, Series 1998B due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.00%. At June 30, 2013, the loan balance totaled \$62,000.

\$358,000 Sewer Revenue Bond, Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 3.00%. At June 30, 2013, the loan balance totaled \$110,000.

\$990,000 Sewer Revenue Bond, Series 2009A due in annual payments of \$32,000 - \$57,000 (currently \$34,000) to June 1, 2030, and interest at 3.00%. At June 30, 2013, the loan balance totaled \$757,000.

The Utilities is also obligated under a 50% loan liability guarantee related to the financing for the purchase of 58 acres of land for a business park by the Emmetsburg Community Development Corporation ("ECDC"). The guarantee is for 50% of a \$685,000 direct and indirect loan from USDA Rural Development and Iowa Trust and Savings Bank, including 50% of interest due on those loans. During fiscal 2010, ECDC was unable to service the debt and the Utilities assumed 50% of the loan liabilities, which were recorded as a non-operating risk under loan guarantee expense of \$316,347 for fiscal 2010. Original loans under the guarantee are as follows:

\$485,000 USDA Rural Development, due in annual payments of \$12,894 to November 7, 2040 and interest at 4.125%. At June 30, 2013, the Utilities 50% of the loan balance totaled \$207,420.

\$200,000 Iowa Trust and Savings Bank, due in annual payments of \$7,977 to November 5, 2032 and variable interest at 6.75%. At June 30, 2013, the Utilities 50% of the loan balance totaled \$85,536.

Annual estimated debt service requirements related to the loans are as follows:

Year Ending		Principal	Interest	Total
June 30,				
2014	\$	226,541	117,230	343,771
2015		231,869	106,402	338,271
2016		240,214	99,307	339,521
2017		252,541	91,990	344,531
2018		258,958	84,223	343,181
2019-2023		1,208,258	309,015	1,517,273
2024-2028		911,456	119,897	1,031,353
2029-2033		186,442	32,727	219,169
2034-2038		52,833	10,182	63,015
2039-2041		23,844	2,932	26,776
	\$	<u>3,592,956</u>	<u>973,905</u>	<u>4,566,861</u>

**8. Employee Benefits and Other Postemployment Benefits (OPEB)**

**Health Insurance (Partial Self-Insurance)**

The Utilities have purchased a health insurance policy with a \$3,000 deductible per individual and a \$6,000 per family co-insurance clause. The Utilities then self-insures \$2,750 of \$3,000 deductible.

### **Other Postretirement Benefits (OPEB)**

The Utilities operates a single-employer retiree benefit plan, which provides medical/prescription drug benefits for retirees and their spouses. There are eight active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield of Iowa. Retirees under age 65 pay the same premium for the benefits as active employees and retirees are required to reimburse the Utilities for any premiums paid under the plan. The contribution requirements of plan members are established and may be amended by the Utilities.

The Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from Generally Accepted Accounting Principles. The Amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

### **9. Risk Management**

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **10. Related Party Transactions**

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2013, the Component Unit billed \$452,153 in fees for the Primary Government.

**Emmetsburg Municipal Utilities  
Component Unit of the City of Emmetsburg, Iowa  
Required Supplementary Information  
Year Ended June 30, 2013**

**Budgetary Comparison Schedule of  
Revenues, Expenses and Changes in Net Position -  
Budget and Actual**

	<u>Actual</u>	<u>Budgeted Amounts Amended</u>	<u>Final to Actual Variance</u>
Operating revenues	\$ 3,058,436	3,303,220	(244,784)
Operating expenses	<u>2,839,054</u>	<u>3,505,779</u>	<u>(666,725)</u>
Operating income	219,382	(202,559)	421,941
Non-operating revenues and (expenses)	(98,057)	(117,806)	19,749
Transfers to Primary Government	(97,574)	(75,278)	(22,296)
Net position at beginning of year	<u>12,520,775</u>	<u>12,520,775</u>	
Net position at end of year	<u>\$ 12,544,526</u>	<u>12,125,132</u>	

**Notes To Required Supplementary Information - Budgetary Reporting**

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

**See Independent Auditors' Report.**

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**Emmetsburg Municipal Utilities**  
**Component Unit of the City of Emmetsburg, Iowa**  
**Combining Schedule of Operating Expenses**  
**Year Ended June 30, 2013**

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>Personal services:</b>				
Trustee fees	\$ 1,500	1,500	1,500	4,500
Office salaries	19,176	19,009	19,009	57,194
Plant labor	91,057	92,103	107,557	290,717
Extra labor	4,190	5,036	5,383	14,609
Overtime	3,698	5,114	5,432	14,244
IPERS	9,993	10,117	11,494	31,604
Payroll taxes	9,156	9,329	10,570	29,055
<b>Total personal services</b>	<u>138,770</u>	<u>142,208</u>	<u>160,945</u>	<u>441,923</u>
<b>Contractual:</b>				
Advertising	3,742	2,808	2,568	9,118
Professional	4,248	12,540	14,351	31,139
Insurance	8,673	23,090	26,897	58,660
Health insurance and risk fund	27,920	44,292	53,412	125,624
Analytical testing and contract	-	1,154	28,787	29,941
Regulatory commission	9,085	1,386	1,890	12,361
Conference and education	4,908	2,384	4,356	11,648
Regulation and compliance	1,751	1,009	251	3,011
Energy efficiency plan	8,049	-	-	8,049
Telecom system	36,127	-	-	36,127
Collection expense	135	-	-	135
<b>Total contractual</b>	<u>104,638</u>	<u>88,663</u>	<u>132,512</u>	<u>325,813</u>
<b>Materials, supplies and maintenance:</b>				
Cost of natural gas purchased	1,036,508	-	-	1,036,508
Maintenance supplies	2,270	6,227	8,829	17,326
Automotive supplies and expense	6,183	9,481	9,885	25,549
Other equipment supplies and expense	2,750	1,221	3,024	6,995
Computer maintenance and supplies	4,508	4,153	4,312	12,973
Chemicals	-	32,616	1,032	33,648
Maintenance and materials - mains	31,021	50,628	-	81,649
Treatment plant maintenance	-	5,340	-	5,340
Water well maintenance	-	25,369	-	25,369
Collection system maintenance	-	-	40,309	40,309
Lift station maintenance	-	-	4,589	4,589
Office supplies	8,332	9,040	8,242	25,614
Uniforms	1,471	757	892	3,120
Maintenance buildings and grounds	891	1,085	2,746	4,722
Miscellaneous	3,348	883	450	4,681
<b>Total materials, supplies and maintenance</b>	<u>1,097,282</u>	<u>146,800</u>	<u>84,310</u>	<u>1,328,392</u>

See Independent Auditors' Report.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>Utilities:</b>				
Lift station power	\$ -	-	5,039	5,039
Telephone	3,399	3,523	3,882	10,804
Electric and Gas	<u>3,636</u>	<u>31,856</u>	<u>50,522</u>	<u>86,014</u>
<b>Total utilities</b>	<u>7,035</u>	<u>35,379</u>	<u>59,443</u>	<u>101,857</u>
<b>Depreciation</b>	<u>60,922</u>	<u>246,848</u>	<u>265,084</u>	<u>572,854</u>
<b>Uncollectible accounts</b>	<u>285</u>	<u>586</u>	<u>446</u>	<u>1,317</u>
<b>Interfund services used:</b>				
Administrative fees - Primary Government	<u>38,066</u>	<u>14,416</u>	<u>14,416</u>	<u>66,898</u>
<b>Total interfund services used</b>	<u>38,066</u>	<u>14,416</u>	<u>14,416</u>	<u>66,898</u>
<b>Total operating expenses</b>	<u>\$ 1,446,998</u>	<u>674,900</u>	<u>717,156</u>	<u>2,839,054</u>

**Burdorf, Parrott And Associates, P.C.**  
Certified Public Accountants

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Patrick J. Parrott, CPA  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Emmetsburg Municipal Utilities  
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2013, and have issued our report thereon dated January 17, 2014. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Emmetsburg Municipal Utilities, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Emmetsburg Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emmetsburg Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Emmetsburg Municipal Utilities' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. I-A-13 and I-B-13. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Burdorf, Parrott And Associates, P.C.*

January 17, 2014

**EMMETSBURG MUNICIPAL UTILITIES**

**Schedule of Findings and Responses**

**Year ended June 30, 2013**

**Part I: Findings Related to the Financial Statements**

**REPORTABLE CONDITIONS:**

I-A-13      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the Utilities has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the Utilities is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.

Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, we recommend that the Utility officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - the Utility will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.

Conclusion - Response accepted.

I-B-13      Financial Reporting – A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2013, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not performed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

Recommendation – Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – Our education policy allows individuals charged with the accounting function to

attend continuing education related to understanding and recording complex transactions.

Conclusion – Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-13      Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-13      Certified Budget - Expenditures during the year ended June 30, 2013 did not exceed the budget for the year.
- II-C-13      Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-13      Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-13      Business Transactions – Business transactions between the Utilities and Utilities' officials or employees are as follows:
- Board Members
- Nick Steinkamp
- K & W Electric, Inc.      Repairs & Maintenance      \$803  
The transactions with Mr. Steinkamp do not appear to represent a conflict of interest since total transactions with him were less than \$1,500 during the year.
- II-F-13      Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-13      Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-13      Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-13      Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.